



National Insurance Brokers Association.



3 December 08

The Hon John Lenders MLC
Treasurer
1 Treasury Place
East Melbourne Vic 3002

The Hon. Bob Cameron MP
Minister for Police and Emergency Services
Level 26
121 Exhibition Street
Melbourne Vic 3000

Funding of Fire Services

Dear Minister

I am writing on behalf of the National Insurance Brokers Associations (NIBA) to express member concerns about the level of taxes and charges that apply to property insurance in Victoria.

Commercial property insurance in Victorian has now reached the point where for each dollar of basic insurance premium a further dollar has to be paid in taxes and charges. Such an arrangement is inequitable and is badly in need of reform.

NIBA is the national association representing insurance brokers in Australia. NIBA members are responsible for the placement of around 90% of all insurance for commercial insurance in Australia.

Insurance brokers represent the interests of the purchasers of insurance, the policyholders, and not those of insurance companies. Consequently the comments and suggestions made in this letter are made not on behalf of insurance companies but on behalf of the Victorian public that purchases insurance.

NIBA supports the work of the fire services authorities and agrees that it is important that these services are well funded. NIBA is, however, strongly opposed to weight of taxation currently placed upon Victorian insurance policyholders and NIBA suggests that it is high time to introduce a more equitable method of funding fire services.

It is well recognised that insurance taxes, including the fire services levy, are an inequitable form of taxation as they perform very poorly against any analysis of sound taxation principles. For example, the Independent and Pricing Regulatory Tribunal in NSW recently stated:

“Insurance duty and fire services funding contributions are the least efficient State taxes. Both these revenue sources penalise those who are prudent enough to take out insurance, and so encourage underinsurance and non-insurance. In addition, significant free-rider problems are associated with the fire services funding arrangements, where non-contributors benefit from the provision of fire services without contributing to the cost through insurance policies.”

The base to which the tax applies is narrow. Those that do not insure their property make no contribution to providing fire services while still enjoying the relevant services. Those people who under-insure do not make an adequate contribution for the services that they receive.

Policyholders not only have to pay the fire services levy but they also have to pay GST and stamp duty. These taxes are cascading so that taxes are paid on taxes and on taxes again.

NIBA members have recently been informed that the rate of fire services levy for Victorian country commercial insurance is to rise to 63 % of the basic premium. When GST and stamp duty are applied the total taxes and charges are a staggering 97.23% of the basic premium. This places Victoria as the highest of all Australian States and Territories when it comes to the taxation of insurance policies.

The calculation is as follows.

\$100.00	Basic premium
<u>63.00</u>	63% Fire Services Levy
163.00	
<u>16.30</u>	10% GST
179.30	
<u>17.93</u>	10% Victorian Stamp Duty
<u>197.23</u>	

No industry can afford such taxes and charges without significant consequences. They simply drive normally prudent people away from insurance protection.

NIBA notes that the level of taxation on insurance is a matter that is currently being considered by the Commonwealth’s Review of Australia’s Future Tax System and that a number of submissions, including one from NIBA, have commented adversely on the current situation.

It is imperative that the Victorian Government considers other and more effective ways of funding its fire services. A method that is more equitable and one that does not penalise the prudent is required.

Yours sincerely

Noel Pettersen
CEO